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Down and out on billionaires' row

As Sir Anthony O'Reilly and Sean Quinn lose their shirts — showing even the rich are not recession-proof — what hope is there for the rest of us?



Sir Anthony O'Reilly

Brian Carey

It is hard to imagine two more different billionaires. Sir Anthony O'Reilly is married to a Greek shipping heiress, has homes in Dublin, London and New York, a stud farm in Kildare, a château in Deauville, France, "built on the ruins of the castle where William the Conqueror plotted his 1066 invasion of England" and officially resides as a tax exile at a gated community at Lyford Cay, near Nassau, in the Bahamas.

A knight of the realm, he frequently dines with heads of state, is a distinguished public speaker and famous raconteur. He owns a string of thoroughbred racehorses, many hand-picked by his wife, Chrissy Goulandris, and has an art collection estimated to be worth €150m that includes work by painters such as Monet.

Sean Quinn is Fermanagh born and bred, married to Patricia, a local sweetheart, and lives on a large, well appointed house on the family farm. He has spoken publicly once in the past decade, at a function organised by the Cavan County Enterprise Board, and he does not use a mobile phone.

He famously relaxes by walking with his two dogs in the mountains and going to local Gaelic football matches. He plays a game of cards, 21, in a local pub, where his losses are stopped at €5, and where he must cross the yard to use the toilet.

Socially, O'Reilly and Quinn are worlds apart. Financially, however, in the past 18 months, the two men have been in exactly the same boat — both of them have lost close to €1 billion in the worst market crash in the history of the Irish stock exchange. Investments have been ravaged. Both are learning that these are not times to be heavily indebted to banks.

However, for both men, among Ireland's richest and most successful, there are some things that are more important than money, even the large amounts they have lost. In very different ways, Quinn and O'Reilly are fighting to preserve illustrious business careers.

THIS weekend, Quinn, whose interests range from cement factories in Cavan to shopping malls in Hyderabad in India, received the largest fine ever levied by the Irish Financial Regulator.

The regulator found that Quinn Insurance, a company controlled by the Quinn family, had extended "unauthorised loans" of €229m to other Quinn family companies to buy shares in Anglo Irish Bank.

The fines, €3.25m on the company and €200,000 on Quinn personally, are pocket money to a company with assets of more than €3 billion and to Ireland's richest man. They are dwarfed by the €829m loss that Quinn has suffered on his disastrous investment in the beleaguered bank.

It is the principle, however, that matters. Quinn has stepped down as chairman and director of Quinn Insurance. It is not known if this was demanded by the regulator.

The tycoon feels contrite but also victimised. He said that he was "very disappointed with the decisions" he made "in overexposing ourselves to equities [shares]."

"While I accept that I made mistakes, I feel that the levels of fines do not reflect the fact that there was no risk to policyholders or the taxpayer but are a result of the pressures existing in the current environment," Quinn said in a statement. "However, we will pay the fines and move on."

Peter Oakes, a director of regulatory consultant Compliance Ireland Regulatory Services, described the fine as a watershed. "The fine and the seriousness of the matter [may] be gauged by the fact that the total penalty is almost 70 times higher than the penalty against Irish Nationwide Building Society [the previous highest fine to date]," he said.

This is not the first time that Quinn has dived with the stock markets and lost. At the end of the 1990s, his then fledgling insurance operations were heavily exposed to the over-inflated market in technology shares. At the time, his main financial adviser was his brother, Peter Quinn, a former president of the GAA. Peter Quinn described Sean as "an eternal optimist, which is necessary in business".

By 2001 the stock market losses were such that they threatened the future of the insurance business. It lost €48m on income of just €126m in 2001. Sean Quinn put up a large part of his personal fortune to boost the reserves of the insurance business. It was a masterstroke. Quinn Direct, best known for offering competitive motor insurance deals to young drivers, exploited the subsequent upturn in the insurance industry like no other.

Its profits since 2002 have topped €1.1 billion. With his cement business benefiting from the construction boom and his empire in glass, pubs, hotels and plastic also booming, Quinn's personal wealth swelled to more than €3 billion, according The Sunday Times Rich List.

The success gave Quinn the confidence and financial resources to make the biggest bet ever on the Irish stock market.

Quinn was a client of Anglo Irish Bank, an unabashed admirer of its "can do" approach to backing business. Many of the bank's clients shared the same view and took stakes in the bank. Throughout the economic boom, Anglo's share performance was stellar.

When Irish bank shares started to fall from February 2007 onwards, it was perceived that the declines were because of international nervousness about the Irish economy. Quinn, a big player in the economy, decided to back the bank, and Ireland, confident that its share price would rebound strongly.

The Cavan man chose to invest in Anglo through a special financial instrument called contracts for difference (CFDs). Offered by international investment banks, CFDs are the preserve of the wealthy and professional hedge fund investors. They allowed Quinn to borrow up to 80% of the money to buy the shares in the bank.

This debt allows investors to maximise profits, but equally they can greatly accentuate losses. In addition, when the underlying share price falls so does the value of the lender's security. That is when investors are called on to put more cash on the table, known as margin calls.

These high-risk, high-return CFDs have other advantages. They allow investors to build up stakes in public companies discreetly. As they are backed by expensive borrowings, CFDs are really considered appropriate only for short-term investments.

Market observers say there is no doubt that Quinn was "punting", betting that Anglo Irish shares would rise and that he could make a quick and sizeable profit. From the summer of 2007, rumour spread through the stock market that Quinn had built up to a 15% stake in Anglo through CFDs and at a cost of €2 billion. Neither bank nor businessman would confirm or deny the story.

"We have investments in a number of different companies and are not making any comment," a Quinn

spokesman said. At this stage, it was purely a personal, family investment, distinct from the activities of his insurance company, which, as a matter of course, invests in the stock market. But it was an enormous personal punt that was about to go horribly wrong.

The collapse of Northern Rock in September 2007 brought a whole new dimension to Quinn's investment. There was now a much bigger picture. Globally, banking stocks would begin the huge declines that continue to this day. Anglo would be hurt more than most, falling 90% in a year.

It is estimated that Quinn would have been carrying borrowings of more than €1.4 billion on his Anglo investment. As the Anglo share price fell, he would have faced repeated "margin calls" from Credit Suisse, and a number of other lenders, looking for hundreds of millions of euros. As 2008 dawned, Quinn was under significant financial pressure. He needed to raise money.

In May, Quinn Insurance made the loan of €288m, most probably to meet a margin call. By June, as the credit crunch deepened and share prices fell sharply, the Financial Regulator began its investigations. It is understood that Quinn was encouraged by the regulator to clear all his borrowings by converting his CFDs into shares. He has done this.

It was the discovery of the unauthorised loan that led to last week's record fine.

THE root cause of the challenges facing the O'Reilly empire — similar to that creating Quinn's problems — is also debt, this time corporate.

Earlier this month, Waterford Wedgwood, a "trophy" business more than 50% owned by O'Reilly and his brother-in-law, Peter Goulandris, struggled to raise €5m from existing company shareholders to back yet another rescue plan for the luxury goods group.

"This is the biggest tabletop company in the world," O'Reilly told Time magazine in 2007. "We've got fantastic brands."

However, if Waterford does not raise €78m from outside investors by the middle of December, it risks defaulting on its banking agreements. Waterford owes its banks €540m and is struggling to make enough profit to pay the interests and pay-down loans.

O'Reilly and Goulandris have invested at least €330m of their personal fortunes in Waterford Wedgwood since 2004. Based on the current stock market value of the company, the men have lost close to €300m on their investment.

Shares in Independent News & Media (INM), publisher of the Irish Independent and Sunday Independent, have also fallen dramatically in the past few weeks as media shares plummeted. In total, O'Reilly's near 30% stake in INM has fallen by almost €700m from its peak, achieved in May last year.

INM, still very profitable, has debts estimated at €1.4 billion. The problem for O'Reilly is that to refinance these loans and bonds will now be much more expensive because of the credit crunch. Merrion Capital, a Dublin stockbroker, said last week that the company should reduce its debt by cutting or abolishing the dividend that INM pays on its shares. That would hit O'Reilly in the pocket. These dividends were worth €26m to him personally last year.

Apart from threats to his personal income, O'Reilly is facing a continuing threat to his control of the newspaper group from rival media magnate Denis O'Brien. Last week, O'Brien, who Gavin O'Reilly, Sir Anthony's son, once called "a gnat", took advantage of Independent's low share price to buy 3m shares and increase his stake from 24% to 26%.

O'Brien, of course, has still not declared his intentions where INM is concerned. Asked if he intended to buy control of the media company, he replies that not even his wife knows his intentions in that regard.

But if he wants to make an assault on O'Reilly's empire, he certainly has the means. O'Brien last year realised €800m in cash from refinancing his Caribbean-based Digicel mobile phone group. Given that O'Brien already has significant media interests in Ireland, O'Reilly may end up relying on the government to fend off the invader. There is an old stock market adage that a company's best defence to a takeover is its share price. Right now, INM's defences are weakened. Waterford Wedgwood's are completely flattened.

BOTH Quinn and O'Reilly are still rich men, and continue to control some of Ireland's largest and most

successful businesses and neither will lie down easily, but there are tough times ahead.

Quinn's financing of his investment in Anglo Irish bank, while a customer of the same institution, will likely face further scrutiny. Joan Burton, Labour's deputy leader, has called for a full investigation into the share dealings.

Events over the next 12 months, meanwhile, at both Waterford Wedgwood and INM will go some way to determining O'Reilly's business legacy.

And remember this. If our billionaires can't battle their way out of the current economic downturn, what hope is there for the rest of us?

Wheel of fortune turns nasty

Michael Taggart

Last year's Ernst & Young Entrepreneur of the Year faces tough times. Last week, the banks appointed an administrator to Taggart Holdings, his construction company. Taggart was worth €174m jointly with his brother John on last year's Sunday Times Rich List, but his company now owes an estimated €150m.

Michael O'Leary

O'Leary sees the downturn as an opportunity. It will encourage passengers to desert higher-price airlines, he predicts. If fleet prices collapse, he might open a long-haul service to the US, he says. Ryanair's shares were worth €5.65 a year ago and are now at €2.65. His loss is estimated at €200m. Has he lost his midas touch?

Eugene Murtagh

When Kingspan's share price peaked in May 2007 Eugene Murtagh's shares were valued at about €800m. Since then Murtagh has seen about €422m written off the value of his holding. Murtagh, 65, stood down as chief executive in 2005, but did not insulate his personal fortune by cashing in shares before the slump.

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